Memorandum on

2017-2018 Budget

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1. Introduction

The object of this Memorandum is to highlight the views and proposals of Business Mauritius in the context of the 2017-2018 National Budget.

The key focus of Business Mauritius for this 2017-2018 Budget is on the acceleration of the implementation of a number of policies and measures on which there is already general agreement. The slow pace, and at times, the delay in the implementation of these measures are impacting adversely our overall economic performance.

This Memorandum is divided into three parts:

- Part I refers to the general context and background;
- Part II focuses on the main challenges facing the economy; and
- Part III summarises the way forward and proposals.

2. Context and Background

The international economic recovery continues to be positive with the US maintaining its growth trajectory, the Euro zone, despite BREXIT is growing and the large emerging economies (mainly India and China) sustaining an above 6.5% increase in GDP. IMF has raised its overall economic outlook for 2017 to 3.5% compared to a growth of 3.1% in 2016. That said, non-negligible downside risks loom on the global horizon, linked particularly to the threat of protectionism which is hanging over global trade and tighter global financial conditions that could trigger disruptive capital outflows from emerging economies.

The domestic economic landscape in 2016 showed some improvement. According to Statistics Mauritius, the GDP growth, measured at basic prices for 2016 was 3.5% compared to 3.0% in 2015 with overall unemployment going slightly down from 7.9% to 7.3%. However, the overall national investment ratio, dropped for a sixth consecutive year, although the private sector's share showed a modest increase. The tourism sector sustained a growth of almost 10%. The construction sector posted a no-growth outturn following five straight years of contracting real value added. The global business, despite the review in the India- Mauritius DTAA maintained a growth path. The export-manufacturing sector, unfortunately remained in a contracting zone, adding pressure on the trade deficit.

On the fiscal front, public sector debt for the purpose of debt ceiling improved slightly from the preceding year, standing at 55.3% of GDP as at December 2016, with a corresponding rate of 64.4% attained as per the international definition. With regard to the latter, it is worth noting that the debt of state owned enterprises (SOEs) represents about 4% of GDP. In the 2016/2017 budget, Government embarked on an exercise to rationalise a wide range of SOEs and Business Mauritius would encourage an acceleration of this rationalisation exercise.

Furthermore, with the ageing of the population the cost of social transfers will further increase and will impact adversely on the public finance, if the current mode of payment of Basic Retirement Pension (BRP) is maintained at the age of 60 for those who retire from the labour market at 65. Accordingly, it has become expedient to review the overall social protection framework in Mauritius.

Moody's, in its last analysis of the economy (April 2017) maintained its credit rating on the basis that Mauritius, as an upper-middle economy has been "resilient''. Statistics Mauritius, the Bank of Mauritius and the IMF have forecasted an economic growth between 3.8% to 4% for the year 2017.

3. Challenges Facing the Economy

Mauritius has yet to move out of the middle income trap and achieve a new growth level ranging between 4% to 5%. The challenges facing the economy, in the present context, may be summarised under three main categories, namely, stagnating investment rate, declining productivity growth contribution to GDP and decrease in the export manufacturing sector.

3.1 Stagnating Investment Rate

The investment rate which went down over the recent past showed a slight increase in 2016. The main reasons for the lack lustre performance in the investment rate are:

(i) modest growth in new sectors (renewable energy and medical services);
(ii) stagnating growth level in the emerging sectors (ICT and Seafood);
(iii) under execution of government capital expenditure;
(iv) the difficulty to maintain the reforms momentum with respect to business facilitation (loss of 17 points in the last Doing Business Report);and
(v) inability to translate into reality a wide range of reforms, already enacted.

3.2 Declining Productivity Growth Contribution to the Economic Growth

According to the Systematic Country Diagnostic of the World Bank (2015), productivity growth which has been a major contributor to the economic growth of the country (up to 90% between 1990-2013) has been on a steady decline, especially since 2005. The main reasons contributing to the declining productivity growth are:

(i) Skills mismatch;
(ii) Inadequate innovation with low R & D spending in both public and private sector;
(iii) High youth unemployment (24%);
(iv) Low women's participation rate (45% compared to an average of 56% among peers); and
(v) Demographic factors due to reduced population growth.

3.3 Declining Performance of the Export Manufacturing Sector

The performance of the export manufacturing sector has been on the decline. In spite of the geographical diversification and some new manufacturing activities, the export manufacturing sector is facing the following systemic constraints:

(i) the manufacturing export base has been stagnant with very low entry of new exporters;
(ii) the integration of domestic oriented enterprises (DOEs) and SMEs in the export supply chain has been poor;
(iii) growth in the new sectors such as medical devices and seafood processing has been modest; and
(iv) the declining performance of the textile sector.

4. The Way Forward – Proposals

In the light of our consultations with the business community and as a result of our engagement with various public bodies, Business Mauritius has chosen to focus on the 'implementation factor' of policies and measures as a means to give a new boost to the investment rate, productivity growth and export manufacturing.

4.1 Proposed Measures to boost Investment

4.1.1 Translating the Legal Provisions of Business Facilitation into Reality

Mauritius lost 17 points in the last Doing Business Report. In order to translate in reality all the legal provisions, the business facilitation process should include components of administrative readiness (A-r) as well as electronic readiness (E-r) in each of the public body involved in the granting of licences, clearances and permits. For example, all the local authorities and public authorities should implement an A-r and E-r plan to deliver the Building and Land Use Permit (BLUP).

In order to ensure total implementation, the existing core team of MoFED, BOI and Business Mauritius should also include Ministry of Civil Service and Ministry of ICT to empower the various public bodies to design their respective A-r and E-r plans for full compliance of the existing legal provisions.

The list of public bodies which should implement the A-r and E-r plans are as follows:

-Ministry of Local Government
-Ministry of Housing
-Ministry of Public Infrastructure
-Ministry of Public Utilities
-Ministry of Environment
-Ministry of Social Security
-Ministry of Health
-Ministry of Labour
-Ministry of Education
-All Municipalities & District Councils -MQA
-HRDC

Business Mauritius would also like to suggest that all requests by public bodies to connect to the info highway be processed and implemented within one and a half months. At present, the time taken to process such applications can be very long and even exceed twelve months.

Business Mauritius is convinced, that by translating all existing legal provisions and those in the new Business Facilitation Act (BFA) into reality, Mauritius should improve significantly its investment climate and raise investment rate.

4.1.2 Raising the Utilisation Rate of e-PS from 2% to 80%

The Public Procurement Office (PPO) launched the electronic Procurement System (e-PS) at a cost of Rs 100 M in September 2015 and as at today, only 14 public bodies representing a total value of less than 2% have joined the system out of a total of 30 main ones. The speed at which the public bodies have been joining the e-PS has indeed, been very slow. According to the PPO the critical success factor is the commitment of the senior management to adopt the e-PS.

The CWA is the most active public body in terms of the engagement of its Board and senior management on the e-PS and the benefits resulting from this commitment are as follows:

(i) Significant gains in procurement lead time;
(ii) Out of 46 CWA tenders only one has been subject to review at IRP; and
(iii) Increased competition with reduction in bids value ranging between 5% -10 %.

At present, the public bodies' interface with the e-PS can be classified in three categories:

(i) Public bodies which have joined the e-PS and are moving fast;
(ii) Public bodies which have joined the e-PS and have not continued to use the system; and
(iii) Public bodies which have not joined the e-PS.

The main public bodies in the above three categories are listed below:

Joined e-PS fast and moving fast	Joined e-PS and not moving fast	not joined e-PS
- Central Water Authority - Police Department	- Ministry of Education - Ministry of Public Infrastructure - Ministry of Health - Ministry of Youth & Sports - Municipality of BB/RH - C E B	-Wastewater Management Authority -Mauritius Ports Authority -Road Development Authority -National Development Unit -Cargo Handling Corporation -Airports of Mauritius -Ministry of Agro-Industry -Ministry of Local Government -All Municipalities (except BB/RH) and District Council
1%	15%	80% – 85%

In order to move forward, Business Mauritius would like to suggest that an agreed time-table between the main public bodies and the PPO be set to reach 80% of e-PS within the next 2 years and declare a cut-off date for using e-PS only. In order to meet the target of 80% for bids to be done on the e-PS, Business Mauritius would suggest that an implementation team comprising Public Procurement Office, Ministry of Civil Service and Ministry of ICT be set up to prepare the public bodies for administrative readiness (A-r) and the electronic readiness (E-r).

By raising the e-PS adherence to 50% in 2017/2018 and 80% in 2018/2019, Government will improve the execution of Government projects, raise the level and efficiency of its expenditure, bring more transparency and widen the suppliers base.

It is important to sustain the momentum of expenditure notably in respect of public infrastructure undertakings, whilst maintaining a conducive environment for private sector investment, and increase the leveraging of Public-Private Partnership.

4.1.3 Energy Sector

4.1.3.1 Roof Top Photovoltaic Projects

The Medium Scale Distributed Generation (MSDG) scheme announced in May 2016 is yet to take off. Although there are significant interests by Mauritian enterprises to invest around Rs2B in MSDG projects, there are still some major constraints which have to be reviewed.

In the absence of an active Utility Regulatory Authority, CEB has set the following rules:

(i) limits the generation of the prosumer at 30% of its total annual consumption. CEB, in its contractual agreement insists that excess electricity generated beyond the 30% threshold will be treated as equivalent additional electricity imported from the grid and be billed to the Prosumer account in accordance with the electricity tariff assigned to the Prosumer account; and

(ii) CEB imposes a grid connection fee equivalent to Rs 212/ kWp/month. Business Mauritius considers the grid connection fee to be too high and is a major deterrent to investment in MSDG projects.

As at to-day, all interested companies, mainly medium sized companies, though engaged in discussions with the CEB have not yet signed any agreement.

We invite the authorities to review the grid connection fee and the ceiling of 30% on the prosumer.

4.1.3.2 Optimising Biomass

Mauritius needs a framework to optimise the use of biomass for electricity production. In this context, appropriate parameters will have to be put into place to encourage the utilisation of all biomass (bagasse, cane trash, wood chips, etc).

Business Mauritius would invite the authorities to finalise a pricing mechanism as to unlock major investment in biomass projects, more so as a price proposal has already been circulated.

4.1.4 Telecommunications Infrastructure

The market of broadband in Mauritius remains relatively modest. It is pertinent to highlight that while international bandwith usage in Mauritius grew by 62% between 2009-2013, other african markets, such as, Kenya grew by 173% over the same period (World Bank Country Report). Although Kenya bandwith utilisation was only about twice that of Mauritius in 2009, it grew to more than 10 times in 2013 giving Kenya a major competitive edge in terms of lower wholesale bandwith prices (including better speed) and capacity to attract BPO.

Mauritius needs to lower the wholesale bandwith prices to attract new BPO segments and renew with double digit growth in the ICT/BPO sector. Accordingly, the two projects announced last year to facilitate the launching of a third fibre optic and a second backbone to unbundle the local loop should be urgently implemented.

4.1.5 Improving Access to Credit

Extensive consultations have taken place among stakeholders to proceed with an appropriate framework to introduce an integrated legal framework for secured transactions that extend to the creation, publicity and enforcement of fundamental equivalents to security interests in movable assets.

Business Mauritius believes that the legislation could be enacted before the end of the year. This new framework will improve the access of SMEs to credit as they will be able to use some of their movable assets as collaterals.

5. Raising Productivity

5.1 Accelerate the Implementation of the National Skills Development Programme (NSDP)

Business Mauritius views the continuity of the NSDP as fundamental in our efforts to bridge the mismatch of skills. The engagement of the private sector is crucial and, in the light of the lessons learnt in the implementation of the programme during the last year, Business Mauritius would like to recommend that Government maintains NSDP for the next two years.

The table below shows the engagement of the private sector during 2017 and the projections for 2017/2018.

SN	SECTOR	JULY 2016 TO JUNE 2017		2017 TO 2018	
		APPROVED	*PARTICIPATING EMPLOYERS*	*FORECAST*	*POOL OF EMPLOYERS*
1	ICT & BPO	462	5	200	5
2	Tourism & Hospitality	330	3	300	5
3	Construction	25	1	150	5
4	Security Services	250	2	100	2
5	Cleaning Services	20	1	100	4
6	Health Care Services	102	2	20	2
7	Manufacturing		0	400	15
8	Finance		0	60	4
9	Wholesale & Retail		0	120	5
10	Others		0	50	3
	TOTAL	**1189**	**17**	**1500**	**50**

There is also a need to modernise the legal framework for vocational training. Government should, as announced in the last year's budget, go ahead with the setting-up of the National Skills Development Authority (NSDA), the independent regulator.

The main objectives of the NSDA would be to regulate:

(i) the quality and accreditation of vocational training by all players, both public and private ones; and

(ii) the accreditation of foreign vocational skills.

Preliminary consultations have already been undertaken and we invite the authorities to enact the legislation.

5.2 Openness to Skills

Notwithstanding the existence of skills development programmes, in the short term Mauritius will still have to attract high end skills in a number of key areas, such as, ICT, hospitality, financial services, fashion and design. Furthermore, with an ageing population Mauritius is losing its demographic advantage and this will have a further negative impact on an already declining overall productivity rate especially in the manufacturing sector. Accordingly, it is critical that Mauritius adopts a flexible policy to attract these skills and additional labour to the country.

In this respect, the case of Singapore offers interesting reading, given the impressive economic progress fostered therein, to a non-negligible extent, by the focus laid on R&D, foreign direct investment inflows and the targeted welcoming of highly-skilled foreign workers, backed by the adoption of efficiency-based policies and the encouragement provided by the Government to foreign industries to develop their operations in the country. There are additional avenues for peer learning from Ireland and Finland, which are yet other examples of small states which have experienced rapid growth for more than a decade by building their human and knowledge assets and unleashing the potential of technologies.

5.3 Introduction of Minimum Wage

Business Mauritius believes that the setting up of the national Wage Consultative Council (NWCC) is a step in the right direction. However, uncertainty still prevails regarding the pertinence of continuing ROs in its present form with the upcoming of the minimum wage policy.

A minimum wage policy applicable at the national level, notwithstanding the need to protect the high risk of unemployment in some very vulnerable sectors, cannot function in tandem with Remuneration Orders which prescribe minimum wage rates across sectors. Businesses need certainty in the law on hiring and payroll costs for job creation and maintaining employment levels. Any system which will breed ambiguity will undermine the trust that a national minimum wage requires among social partners and will limit its effectiveness in addressing low wages.

BM shares the view that the ROs should no more prescribe minimum wage rates but rather determine only terms and conditions specific to sectors. Thus the ROs will be streamlined and will provide additional bargaining scope to employers and workers for regulating terms and conditions of employment through collective bargaining negotiations.

5.4 Innovation

One of the key factors that would bring innovation is the 'connect' between enterprise and academia. The Collaborative Research and Innovation Grant Scheme (CRIGS) launched in 2015 has yielded very encouraging results. A total of 18 projects have been approved under CRIGS and other CRIGS inspired schemes, such as, High Performance Computing Research and Innovation Grant (HPC-RIG) and Biotechnology Research and Innovation Grant (BRIG). The value of the 18 projects is estimated at Rs 137.6 M with a private sector contribution of Rs 76 M.

The new incubator scheme has also adopted the same approach of private sector matching government grant. However, the scaling up of the number of such projects will depend on the implementation process, which is much more complex.

Given the experience which the MRC, as executing agency of the above schemes has accumulated and the need for proper guidance from an effective steering committee, Business Mauritius would like to suggest that only one steering committee (instead of 2 committees) under the Chairmanship of MoFED be given the responsibility to oversee the implementation of the schemes.

6. Review the Export Manufacturing Sector

In order to address some of the systemic issues facing the export manufacturing sector, Business Mauritius would like to make the following suggestions:

6.1 With a view to integrating the DOE, the SME in the exports supply chain, Business Mauritius would like to support the proposal that all manufacturing exporters pay a 5% corporate tax on the share of their exports. Given the present export manufacturing landscape in the country, it is felt that short term revenue loss which is fairly low would be compensated by an increase in exports in the medium term.

It is, however, pertinent for Business Mauritius to highlight that the above proposal would not undermine our shared goal to maintain our taxation landscape simple and efficient in its implementation. Mauritius has scored high in the paying taxes sub-indicator of Doing Business.

Furthermore, appropriate measures could be taken to streamline the process of VAT refund to DOEs and SMEs in the supply chain of exports in the manufacturing sector.

6.2 In line with the recommendations of the National Export Strategy, joint working groups could be set up on the three sectors identified, namely, agro processing, medical devices and seafood to review all the existing constraints in order to accelerate a more robust growth in these sectors.

6.3 If the MSDG scheme were to be unlocked and the local investors implement their projects, Mauritius may well become an exporter in this area.

7. Suggestion regarding CSR Fund implemented by the Business Sector

Since 2009, the business sector has succeeded in creating through the CSR programme an eco-system comprising SPVs and a network of responsible NGOs to deliver their engagement vis-à-vis the community. Through the established guidelines and the reporting to the MRA, companies were gradually constructing an efficient delivery system.

However, the reduction by 50% of the companies CSR Fund and eventually 75% (announced in the 2016-2017 Budget) will undermine this new eco-system. Business Mauritius would like to suggest that the mandatory guidelines be introduced and the share of 50% (or 75%) of private CSR fund to be remitted to the NCSF be removed.

8. Conclusion

Business Mauritius believes that a successful implementation strategy to meet the challenges regarding investment rate, productivity growth and declining exports in the manufacturing sector will put Mauritius back on a higher growth trajectory.

We look forward to discuss our proposals with you during the budget consultations.

28 April 2017